



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

Montana Guaranteed Student Loan Program

*For the Fiscal Year Ended
June 30, 2008*

DECEMBER 2008

LEGISLATIVE AUDIT
DIVISION

08-06

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

December 2008

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the fiscal year 2007-08 financial audit of the Office of the Commissioner of Higher Education's Montana Guaranteed Student Loan Program (program) Federal Special Revenue Fund. The objectives of a financial audit include determining if the program's financial statements present fairly its financial position at June 30, 2008, and the results of its operations for the fiscal year. We tested compliance with state and federal laws that have a direct and material impact on the financial statements. Additional compliance testing for the program is included in our biennial financial-compliance audit of the Office of the Commissioner of Higher Education. Included in this report is one recommendation concerning the monitoring and testing of internal controls.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the financial statements and accompanying notes. We issued an unqualified opinion, which means the reader can rely on the presented information. The program's response to our audit is on page B-1.

We thank the Office of the Commissioner of Higher Education, the Director of the Montana Guaranteed Student Loan Program, and their staff for their cooperation and assistance they provided during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

TABLE OF CONTENTS

Appointed and Administrative Officials	ii
Report Summary	S-1
CHAPTER I – INTRODUCTION	1
Introduction	1
Background	1
CHAPTER II – FINDINGS AND RECOMMENDATIONS	3
Internal Controls	3
INDEPENDENT AUDITOR’S REPORT AND PROGRAM FINANCIAL STATEMENTS.....	A-1
Independent Auditor’s Report	A-3
Federal Special Revenue Fund Balance Sheet as of June 30, 2008.....	A-5
Federal Special Revenue Fund Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual for the Fiscal Year Ended June 30, 2008	A-6
Federal Special Revenue Fund Notes to the Financial Statements for the Fiscal Year Ended June 30, 2008	A-7
OFFICE RESPONSE	B-1
Montana Guaranteed Student Loan Program	B-3

APPOINTED AND ADMINISTRATIVE OFFICIALS

**Office of the
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Sheila M. Stearns, Ed.D., Commissioner of Higher Education

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Mary Sheehy Moe, Deputy Commissioner of Two-Year Education

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Frieda Houser, Director Accounting and Budgeting

**Montana Guaranteed
Student Loan Program**

Bruce Marks, Director

Ron Muffick, Associate Director

Robin Graham, Chief Financial Officer

For additional information concerning the Montana Guaranteed Student Loan Program, contact:

Bruce Marks
P.O. Box 203101
Helena, MT 59620-3101
(406) 444-0351
e-mail: bmarks@mgsllp.state.mt.us

REPORT SUMMARY

Montana Guaranteed Student Loan Program

This report contains the results of our financial audit of the Montana Guaranteed Student Loan Program (program) for the fiscal year ended June 30, 2008. The previous audit did not contain any recommendations to the program.

This report contains one recommendation directed to the program and an unqualified opinion of the program’s financial statements. This means the reader may rely on the financial information and supporting data on the primary accounting records. The program’s written response to the audit begins on page B-3.

The listing below serves as a means of summarizing the recommendations contained in the report, the program’s response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the Montana Guaranteed Student Loan Program implement monitoring and testing procedures for its internal controls in compliance with state accounting policy.....	3
Office response: Concur.....	B-3

Chapter I – Introduction

Introduction

We performed a financial audit of the Commissioner of Higher Education Montana Guaranteed Student Loan Program (program) for the fiscal year ended June 30, 2008. The objectives of our audit were to:

1. Determine if the program's financial statements present fairly the financial position and results of operations for the fiscal year ended June 30, 2008.
2. Obtain an understanding of the program's control systems to the extent necessary to support our audit of the program's financial statements and, if appropriate, make recommendations for improvements in management and internal controls of the program.

This report contains one recommendation to the program. Other areas, if any, of concern deemed not to have a significant effect on the successful operations of the program are not specifically included in the report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed the cost of implementing the recommendation contained in this report and believe the costs are not significant.

Background

The Montana Guaranteed Student Loan Program (program) is part of the Office of the Commissioner of Higher Education. Working under the guidance of the Montana Board of Regents, the program's primary goal is to improve access to postsecondary education in Montana. This goal is accomplished by working collaboratively with schools, colleges, lenders and other trading partners who believe that an investment in education is an investment in Montana.

Created in 1979 by the Montana Legislature, the program is the designated guarantor of the Federal Family Education Loan Program in Montana. For more than 25 years, the program has been a full service guarantee agency providing schools and lenders with a central loan origination and disbursement service. The program provides a variety of guarantee support services including streamlined application processing, single point of contact for schools, lenders and borrowers, on-site technical expertise, and in-house default prevention and collections. In 2008, the program had an outstanding loan portfolio approaching \$2 billion and guaranteed a record number of loans.

Through efficient management of the Federal Family Education Loan Program, the Montana Guaranteed Student Loan Program is able to administer a variety of state and federal grant and scholarship programs. The program manages the Montana University System Honor Scholarship, a renewable merit scholarship that covers the cost of tuition

at qualifying Montana colleges. In 2005, the program began administering the Montana Family Education Savings Program and the Governor's Postsecondary Scholarship Program.

From early awareness programs like Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) to financial management courses taught by staff, the program delivers the information students and families need to succeed after high school.

As of June 30, 2008, the original principal balance of guaranteed loans outstanding was approximately \$1,923,978,868, with a default rate of .64 percent for federal fiscal year 2007-08. Given the current default rate, the federal government will reimburse the program for defaulted loans at the following rates: 98 to 100 percent for loans issued prior to October 1, 1998, and 95 percent for loans issued on or after October 1, 1998.

Chapter II – Findings and Recommendations

Internal Controls

The Montana Guaranteed Student Loan Program (program) has not fully implemented its internal control procedures in accordance with state accounting policy.

State accounting policy outlines management's responsibility for establishing and maintaining agency internal controls to safeguard and account for the resources entrusted to them to carry out government programs. State policy requires each state agency to develop internal control procedures, monitor and test its internal controls and then evaluate and report the results.

The program has developed and documented its internal control procedures, but has not distributed the documentation of its procedures to its personnel. Once the procedures are available to all personnel, the program plans to train all affected employees prior to implementing procedures to monitor and test internal controls so they can evaluate the effectiveness of the controls.

RECOMMENDATION #1

We recommend the Montana Guaranteed Student Loan Program implement monitoring and testing procedures for its internal controls in compliance with state accounting policy

Independent Auditor's Report and Program Financial Statements

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of the Commissioner of Higher Education's Montana Guaranteed Student Loan Program - Federal Special Revenue Fund as of June 30, 2008, and the related Statement of Revenues, Expenditures, and Changes in Fund Balance Budget & Actual for the fiscal year then ended. The information contained in these financial statements is the responsibility of the program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commissioner of Higher Education's Montana Guaranteed Student Loan Program - Federal Special Revenue Fund as of June 30, 2008, and the results of operations for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 19, 2008

**Commissioner of Higher Education
Montana Guaranteed Student Loan Program
Federal Special Revenue Fund
Balance Sheet
As of June 30, 2008**

	Agency Operating Fund	Federal Student Loan Reserve Fund	Essay Scholarship Fund
Assets			
Cash in Treasury	\$ 283,766	\$ 681,103	
Short Term Investments (Note 2)	6,959,736	5,295,344	178,975
Long Term Investments	716,567	545,203	18,427
Accounts Receivable	259,775	27,543	383
Due From Federal Government (Note 3)	425,130	654,989	
Prepaid Expense	5,639		
	<hr/>		
Total Assets	<u>\$ 8,650,613</u>	<u>\$ 7,204,182</u>	<u>\$ 197,785</u>
 Liabilities and Fund Balance			
Liabilities			
Accounts Payable	\$ 597,214	\$ 65,878	
Deferred Revenue	2,355		
Property Held in Trust (Note 4)	3,279		
Due to Federal Government (Note 5)		668,263	
	<hr/>		
Total Liabilities	<u>\$ 602,848</u>	<u>\$ 734,141</u>	<u>\$ -</u>
Total Fund Balance	<u>8,047,765</u>	<u>6,470,042</u>	<u>197,785</u>
Total Liabilities and Fund Balance	<u>\$ 8,650,613</u>	<u>\$ 7,204,182</u>	<u>\$ 197,785</u>

The accompanying notes are an integral part of this financial statement.

Commissioner of Higher Education
Montana Guaranteed Student Loan Program
Federal Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2008

	Agency Operating Fund			Federal Student Loan Reserve Fund			Essay Scholarship Fund		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Revenue									
Guarantee Fee Income (Note 7)	\$ -		\$ -	\$ 1,683,000	\$ 1,641,834	\$ (41,166)	\$ -	\$ -	\$ -
Loan Processing and Issuance Fee (Note 8)	652,000	652,982	982			-	-	-	-
Account Maintenance Fees (Note 9)	1,319,716	1,489,088	169,372			-	-	-	-
Default Aversion Fees (Note 10)	850,000	831,559	(18,441)	190,000	145,361	(44,639)	-	-	-
Collection Recoveries (Note 11)	3,309,506	3,780,327	470,821	182,000		(182,000)	-	-	-
Loan Rehabilitations (Note 11)	3,240,000	4,183,573	943,573			-	-	-	-
FDSLSP Consolidation Collection Fees (Note 11)	939,372	1,117,516	178,144			-	-	-	-
Reinsurance from Department of Education (Note 12)			-	17,585,000	18,040,263	455,263	-	-	-
Non-Reinsured Loan Recoveries (Note 15)			-		250,076	250,076	-	-	-
Disbursement Service Fees (Note 4)	156,000	150,048	(5,952)			-	-	-	-
Investment Earnings (Note 2)	366,500	299,667	(66,833)	255,000	213,099	(41,901)	-	8,059	8,059
Miscellaneous	34,000	26,674	(7,326)		143	143	-	-	-
Total Revenue	<u>10,867,094</u>	<u>12,531,434</u>	<u>1,664,340</u>	<u>19,895,000</u>	<u>20,290,776</u>	<u>395,776</u>	<u>0</u>	<u>8,059</u>	<u>8,059</u>
Expenditures									
Administrative Costs	\$ 6,164,068	\$ 4,998,556	1,165,512			\$ -	\$ -	\$ -	\$ -
Cost of Loan Collections (Note 11)	7,430,021	6,456,412	973,609			-	-	-	-
Claims Paid to Lenders (Note 12)	-	-	-	31,904,406	18,578,261	13,326,145	-	-	-
Default Aversion Fees (Note 10)	150,000	145,361	4,639	950,000	831,559	118,441	-	-	-
Scholarships	-	-	-	-	-	-	37,400	21,118	16,282
Total Expenditures	<u>13,744,089</u>	<u>11,600,329</u>	<u>2,143,760</u>	<u>32,854,406</u>	<u>19,409,820</u>	<u>13,444,586</u>	<u>37,400</u>	<u>21,118</u>	<u>16,282</u>
Excess (Deficiency) of Revenues Over Expenditures	(2,876,995)	931,105	3,808,100	(12,959,406)	880,956	13,840,362	(37,400)	(13,059)	24,341
Other Financing Sources (Uses)									
Transfer of MGSLP's share to DE (Note 15)	-	-	-	(382,814)	(382,814)	-	-	-	-
Total other financing sources (uses)	-	-	-	(382,814)	(382,814)	-	-	-	-
Net change in Fund balances	(2,876,995)	931,105	3,808,100	(13,342,220)	498,142	13,840,362	(37,400)	(13,059)	24,341
Fund Balance 06/30/07		7,116,660	7,116,660		5,971,900	5,971,900	191,998	210,844	18,846
Fund Balance 06/30/08	<u>\$ (2,876,995)</u>	<u>\$ 8,047,765</u>	<u>\$ 10,924,760</u>	<u>\$ (13,342,220)</u>	<u>\$ 6,470,042</u>	<u>\$ 19,812,262</u>	<u>\$ 154,598</u>	<u>\$ 197,785</u>	<u>\$ 43,187</u>

The accompanying notes are an integral part of this financial statement.

Commissioner of Higher Education
Montana Guaranteed Student Loan Program

Federal Special Revenue Fund

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Program

The State of Montana's Guaranteed Student Loan Program (MGSLP) is located in the Office of the Commissioner of Higher Education. MGSLP was established by the Office of the Commissioner of Higher Education in fiscal year 1981 to coordinate and administer the federally insured student loans issued by various lending institutions. Montana's Federal Family Education Loan Program (FFELP) operates in compliance with and pursuant to agreements between the Montana Board of Regents and the U.S. Department of Education (DE), pursuant to Section 428 of the Higher Education Act of 1965, as amended. On February 8, 2006, President Bush signed the Higher Education Reconciliation Act of 2005 (the "HERA"), PUB. L. 109-171, which made changes to the Higher Education Act of 1965, as amended. These changes became effective during the fiscal year ended June 30, 2008.

B. Basis of Accounting

The financial statements were prepared using the modified accrual basis of accounting, and are presented in a budget to actual format, which does not significantly differ from a GAAP presentation. Under the modified accrual basis of accounting, revenues are recognized when they are realizable, measurable, earned and available. They are considered realizable and measurable if the transaction has been completed or there is enough information to reasonably estimate the revenue to be received. The revenue is considered earned when the services have taken place. Available means that the revenue is collectable within the current accounting period or will be received within sixty days after the end of the fiscal year. The expenditures are recorded when the department incurs the related liability and it is measurable. The budget information presented in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual is as approved by the Montana Board of Regents for fiscal year 2008.

C. Descriptions of Federal Special Revenue Funds

As a Federal Special Revenue Fund, MGSLP accounts for the proceeds of revenue sources that are legally restricted to expenditures for specified purposes. Pursuant to the Higher Education Act of 1965, as amended, MGSLP accounts for its operations in two separate funds: the Federal Student Loan Reserve Fund (FSLRF) and the Agency Operating Fund (AOF). Use of the FSLRF is limited to payment of lender claims and payment of default aversion fees or other DE fee payments as directed. MGSLP is required to deposit claim reimbursements from DE into the FSLRF, as well as the following: DE's equitable share of defaulted loan recoveries, the portion of default recoveries that equals the complement of the reinsurance rate which is not reimbursed to MGSLP by DE, and student loan insurance premiums (guarantee fees). The AOF is the property of MGSLP and is used for a variety of FFELP activities and for other student aid related activities as selected by the agency. Payments received by MGSLP for loan processing and issuance, account maintenance, default aversion activities, and MGSLP's share of

defaulted loan collections is all deposited into the AOF. MGSLP also maintains a fund to account for funds held in trust for recipients of MGSLP's essay scholarship contest. Funds are invested in the Montana Short Term Investment Pool (STIP).

2. INVESTMENTS

Short Term and Long Term Investments are units purchased in the State of Montana's Short Term Investment Pool (STIP) and are recorded at a unit cost of \$1. All securities in STIP are held in the name of the Montana Board of Investments or were registered in the nominee name for the Montana Board of Investments and held by the Board's custodial bank. STIP credit quality is not rated. The Board of Investments employs the "Prudent Expert Rule" in managing the State's investment portfolio. At June 30, 2008, MGSLP owned 13,714,252 units valued at \$13,714,252. MGSLP does not have a formal policy for credit risk. As directed by the Department of Administration, MGSLP classified \$1,280,197 of STIP as Long Term Investments to reflect MGSLP pro rata share of STIP investments that were non-liquid at June 30, 2008.

3. DUE FROM FEDERAL GOVERNMENT

MGSLP pays individual lending institutions for any loans that have defaulted or are unpaid due to the death, permanent disability, or bankruptcy of the borrower. The agency then seeks reimbursement from the DE in accordance with reinsurance agreements between the agency and DE. Claim payments and subsequent reinsurance payments are paid from and deposited into the Federal Student Loan Reserve Fund. MGSLP's claims for reinsurance payments not received as of June 30, 2008, are included here. In addition, the receivable Due From Federal Government includes amounts MGSLP had not yet received for Loan Processing and Issuance Fees (Note 8) and for Account Maintenance Fee (Note 9) for the last quarter of fiscal year 2008. The extent of the outstanding reinsurance activity and other pending reimbursements from DE as of June 30, 2008, is shown below.

Reinsurance Claims	\$654,989	Federal Student Loan Reserve Fund
Teacher Loan Forgiveness	\$104,920	Agency Operating Fund
Loan Processing and Issuance Fee	\$28,080	Agency Operating Fund
Account Maintenance Fee	\$292,130	Agency Operating Fund
Total Due From Federal Government		

4. PROPERTY HELD IN TRUST

MGSLP operates an escrow disbursement service for approximately fifty lenders. Participating lenders are assessed a fee for this service. In accordance with contracts MGSLP has with the disbursement service lenders, MGSLP automatically debits the lenders' accounts to collect loan proceeds. MGSLP then disburses funds to the schools for delivery to the students by Inter Unit Journal for University system schools and by individual State of Montana warrants or electronic transfers (ACH) for all other schools. The MGSLP disbursement service records all adjustments to individual student loan accounts and ensures that school refunds of loan proceeds are promptly

returned to the lenders. As of June 30, 2008, MGSLP's disbursement service held \$3,279 in student loan funds that are to be refunded to lenders after June 30, 2008. Disbursement service revenues earned during fiscal year 2008 were \$150,048.

5. DUE TO FEDERAL GOVERNMENT

After assignment to the guaranty agency, MGSLP seeks collection of student loans that have defaulted. A portion of the recoveries of loans reinsured by the Department of Education (DE) is owed back to DE (Note 12). At June 30, 2008, the amount owed to DE was \$668,263.

6. DESIGNATED FUND BALANCE

During fiscal year 2003, the Department of Education (DE) allowed guaranty agencies to transfer any unspent recall interest earned during prior fiscal years from the Federal Student Loan Reserve Fund to the Agency Operating Fund. The total amount of funds transferred at that time was \$820,346. The agency is authorized to use these earnings from the Agency Operating Fund to perform certain default reduction activities, as outlined in the Balanced Budget Act of 1997. As of June 30, 2008, the unspent portion of these designated earnings was \$816,047.

7. GUARANTEE FEE INCOME

As of July 1, 1994, the guaranty agencies may collect 1% of the loan amount from borrowers. The Higher Education Reconciliation ACT of 2005 (HERA) eliminates the guarantee fee and establishes a 1% Federal "default fee" effective for loans guaranteed on or after July 1, 2006. The default fee is to be paid by the borrowers or by any other non-federal source. During fiscal year 2008, the Default Fee on loans with a guaranty date on or after July 1, 2006, were paid by the student loan lenders on behalf of the student borrowers. The fees are deposited into the Federal Student Loan Reserve Fund (FSLRF), and recognized as revenue upon receipt. Guarantee fee revenue for fiscal year 2008 was \$1,641,834.

8. LOAN PROCESSING AND ISSUANCE FEE

The Higher Education Amendments of 1998 authorized payment of a Loan Processing and Issuance Fee beginning October 1, 1998. Under this Act, each guaranty agency is paid a loan processing and issuance fee, to be deposited into the Agency Operating Fund, equal to .65% of the total principal amount of loans originated during federal fiscal years 1999-2003 on which the agency issued insurance. Beginning in federal fiscal year 2004, for loans guaranteed on or after October 1, 2003, the fee dropped to .40%. During fiscal year 2008, Loan Processing and Issuance Fee revenue totaled \$652,982 which includes \$28,080 accrued for reimbursements that were not received until after June 30, 2008.

9. ACCOUNT MAINTENANCE FEE

The Higher Education Amendments of 1998 authorized the payment of an Account Maintenance Fee beginning October 1, 1998. Under this Act, each guaranty agency is paid an account maintenance fee, to be deposited into the Agency Operating Fund. For federal fiscal years beginning 2007, the fee is .06% of the original principal balance of guaranteed loans outstanding during the year. During fiscal year 2008, Account Maintenance Fee revenue totaled \$1,489,088.

10. DEFAULT AVERSION FEE

The Higher Education Amendments of 1998 authorized the payment of a Default Aversion Fee beginning October 1, 1998. Upon receipt of a completed lender request for assistance (LRA) not earlier than the 60th day of delinquency, a guaranty agency must engage in default aversion activities designed to prevent a default by the borrower. Department of Education regulations provide for payment of a fee equal to 1% of the loan balance at the time an LRA is submitted, regardless of whether or not the loan is brought current. The default aversion fees are to be transferred from the Federal Student Loan Reserve Fund (FSLRF) to the Agency Operating Fund (AOF) no more frequently than monthly. If the agency receives a default aversion fee and the account later defaults, the agency must rebate 1% of the claim amount to the FSLRF. The fee may be paid only once on any loan. During fiscal year 2008, the Default Aversion Fee paid to the Operating Fund was \$831,559 and \$145,361 was reimbursed back to the Federal Reserve Fund.

11. COLLECTION COSTS RETAINED

MGSLP pursues collection, from the borrower or other responsible party, of defaulted loans held by the agency. The U.S. Secretary of Education is entitled to an equitable share of any recoveries, as determined by the rate of reinsurance on the defaulted loans less an allowance for collection cost reimbursement. Beginning October 1, 2003, the Higher Education Amendments (HEA) of 1998 authorize guaranty agencies to deposit an amount equal to 23% of the payments made by or on behalf of a defaulted borrower into its Agency Operating Fund. Beginning October 2007, this changed to 16%. The HEA also stipulates that the agency shall remit 81.5% of the total outstanding principal collected on rehabilitated loans to the Secretary and the agency shall deposit 18.5% of the principal, 100 % accrued interest and 18.5 % of the outstanding balance. In addition, the Secretary provides the agency with collection costs amounting to 18.5% of the outstanding balance of any defaulted loan held by the agency which is consolidated by the borrower into a Federal Consolidation Loan through either Federal Family Education Loan Program (FFELP) consolidation or Federal Direct Student Loan Program (FDSLP) consolidation. HERA requires that on or after October 1, 2006, the guaranty agency shall remit directly to the Secretary that portion of the collection charge equal to 8.5 % of the outstanding balance of the defaulted loan. During fiscal year 2008, MGSLP retained \$2,625,004 in net collection costs from loan recoveries and consolidations, as follows.

	Revenues	Expenses	Net
Collection Recoveries			\$669,437
Rehabilitations			
FDSLP Consolidations			\$1,355,886
	<u>\$1,117,516</u>	<u>\$517,835</u>	<u>\$599,681</u>
Total			<u>\$2,625,004</u>

12. CLAIMS PAID TO LENDERS AND REINSURANCE FROM DEPARTMENT OF EDUCATION

MGSLP records amounts paid to lenders for claims and subsequent amounts received from the Department of Education (DE) as expenses and revenues respectively. For

fiscal year 2008, MGSLP paid claims totaling \$18,578,261 and received reinsurance from DE totaling \$18,040,263

13. ESSAY SCHOLARSHIP FUNDS

MGSLP has sponsored an essay competition every year since 1999. For 2008, there were 120 recipients who will receive \$200 upon their entry to a postsecondary school. If the student doesn't enroll in the time frame allotted, the funds will revert back to MGSLP. Fiscal Year 2008 will be the last year the competition will be offered. Due to interest earned and recipients non compliance, there was enough in the fund balance to sustain any commitments to students without the need of a transfer from the Operating Fund.

14. SUBSEQUENT EVENTS– RECALL OF FEDERAL RESERVES

The Higher Education Amendments of 1998 required the Secretary to recall from guaranty agency federal student loan reserve funds a total of \$85 million, \$82.5 million, and \$82.5 million in each of federal fiscal years 2002, 2006, and 2007 respectively. On August 28, 2002, DE made a final determination of MGSLP's share of the total amounts to be recalled for each of the stated federal fiscal years: FFY2002 at \$394,414, FFY2006 at \$382,814, FFY2007 at \$382,814. The remaining amount for FFY2007 was transferred to the Secretary on August 28, 2007.

15. CONTINGENCIES

The original principal balance of guaranteed loans outstanding held by MGSLP as of June 30, 2008 was approximately \$1,923,978,868. This amount excludes bad debt, death, disability, and bankruptcy claims which have been previously purchased by the agency. MGSLP has entered into agreements with the Department of Education (DE), dated June 13, 1980, for reinsurance and supplemental reinsurance of loans, in accordance with the Higher Education Act of 1965, as amended. These agreements allow for 100% reimbursement by DE for claims due to the death, disability, or bankruptcy of the borrower. Claims paid due to defaulted loans may be reimbursed by DE for up to 100%. The percent of reimbursement on defaulted loans payable to the agency is dependent upon MGSLP's annual default rate and date of the loan's first disbursement. Annual default rates are calculated as the ratio of year-to-date default purchases divided by the original guaranteed amount of loans in repayment status at the beginning of the federal fiscal year.

The following schedule reflects the federal reinsurance rates on defaulted student loans. In the event of extreme future adverse loss experience, MGSLP could be liable for up to 25% of the outstanding loan volume. Since its inception, MGSLP has paid \$4,785,174 in claims, or portions of claim eligible loans, which were not reinsured by DE. During fiscal year 2008, MGSLP recovered \$250,076 of the total outstanding balance of non-reinsured claims held by the agency.

RATE OF ANNUAL DEFAULTS	FEDERAL REINSURANCE On loans made prior to 10/01/93	FEDERAL REINSURANCE On loans made on or after 10/01/93 and prior to 10/01/98	FEDERAL REINSURANCE On loans made after 10/01/98
Less than 5%	100%	98%	95%
5% or greater but less than 9%	90% of claims 5% or greater but less than 9%	88% of claims 5% or greater but less than 9%	85% of claims 5% or greater but less than 9%
9% or greater	80% of claims 9% or greater	78% of claims 9% or greater	75% of claims 9% or greater

16. COMMITMENTS

MGSLP is bound by Guarantee Reserve Agreements with the lending institutions participating in the Federal Family Education Loan Program in Montana. These agreements require MGSLP to maintain an amount in the guarantee reserve fund equal to at least 0.25% of the unpaid principal balance of all outstanding loans guaranteed by the agency.

The Guarantee Reserve Agreement ensures that MGSLP will have sufficient cash available to carry out its reasonably expected obligations on guaranteed claim eligible student loans. As of June 30, 2008, MGSLP was in compliance with all Guarantee Reserve Agreements.

17. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, which governs MGSLP, guarantees loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC). The Board of Regents and MHESAC have four common board members. Approximately 76.88% of MGSLP's outstanding loan volume is held by MHESAC.

MGSLP also has an agreement with Student Assistance Foundation of Montana (SAF) to share certain costs for the lease of computer equipment; computer and software maintenance costs; and personnel costs for employees of SAF who perform services that are of direct benefit to MGSLP. Certain SAF personnel are authorized to purchase computer equipment for use by both MGSLP and SAF. Costs for these purchases are covered under an agreement for services between the two entities. During fiscal year 2008, MGSLP's portion of shared costs reimbursed to SAF was \$546,194. The Board of Regents and SAF have four common board members.

18. EMPLOYEES' RETIREMENT SYSTEM

MGSLP classified employees participate in the Montana Public Employees' Retirement System (PERS). Professional employees under contract with the Board of Regents are covered by the Optional Retirement Program (ORP), which is available through

the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF).

Defined Benefit Plans

Established in 1945 and governed by Title 19, chapter 3, MCA, PERS participants are eligible to retire at age 60 with at least five years of service; at age 65 regardless of length of service; or at 30 years of service regardless of age. A reduced retirement benefit may be taken with 25 years of service or at age 50 with a minimum of five years of service. Effective January 1, 1989, monthly retirement benefits are calculated by taking 1/56 times the years of service times the final average salary. Vesting occurs once membership service totals five years.

Defined Contribution Plan

ORP was established in 1988 and is underwritten by the Teacher's Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF). The ORP is a defined-contribution plan. Until July 1, 2002, only faculty and staff with contracts under the authority of the Board of Regents were eligible to participate. The plan was changed, effective July 1, 2003, to allow all staff to participate in the ORP. Contribution rates for the plan are required and determined by State law. MGSLP's contributions were equal to the required contribution. The benefits at retirement depend upon the amount of contributions, amounts of investment gains and losses, and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. MGSLP records employee/employer contributions and remits monies to TIAA-CREF. Individuals vest immediately in the employer portion of retirement contributions. Annual reports that include financial statements and required supplemental information on the plan are available directly from TIAA-CREF.

According to state law, MGSLP also remits additional employer contributions to the PERS and TRS to amortize past service unfunded liability.

Retirement plan information for MGSLP as of June 30, 2008, is as follows.

	PERS	ORP	ORP
		Professional	Staff
Covered Payroll	\$1,790,860	\$89,528	\$112,479
Employer Contributions	\$ 125,987	\$9,558	\$ 7,912.91
Percent of Covered Payroll	7.035%	10,676%	7.035%
Employee Contribution	\$ 123,569	\$6,306	\$7,761
Percent of Covered Payroll	6.900%	7.044%	6.900%

MONTANA
GUARANTEED
STUDENT LOAN
PROGRAM

OFFICE RESPONSE

**Montana Guaranteed Student Loan Program**

2500 Broadway P.O. Box 203101

Helena, MT 59620-3101

CUSTOMER SERVICE: (800) 537-7508

Phone: (406) 444-6594 Fax: (406) 444-1869

custserv@mgslp.state.mt.uswww.mgslp.org

November 24, 2008

Tori Hunthausen, CPA
Legislative Auditor
Legislative Audit Division
P.O. Box 20175
Helena, MT 59620-1705

RECEIVED

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LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

Below you will find the Montana Guaranteed Student Loan Program's response to the recommendation presented in our Financial-Compliance audit for the fiscal year ended June 30, 2008.

RECOMMENDATION #1:

We recommend the Montana Guaranteed Student Loan Program implement monitoring and testing procedures for its internal controls in compliance with state accounting policy.

Response:

We Concur. MGSLP will continue to work on developing and documenting its internal controls to ensure compliance with Montana Operations Manual, Chapter 9900-The Internal Control Guidebook, specifically sections 6 & 7, which addresses monitoring and testing of internal controls.

We appreciate the professionalism and efficiency with which your staff conducted the review of our program. Thank you for the opportunity to respond to the audit report.

Sincerely,

Bruce Marks

Director, Montana Guaranteed Student Loan Program